

AGRIBUSINESS

Key takeaways

- Automation and careful supply chain management two examples of technological impact on agribusiness
- Labour costs and supply of workers a perennial problem
- Vegetable growers seek opportunities overseas despite biosecurity issues
- Bunge a major mover in the BNiQ Agribusiness list



Agribusiness seeks global growth solutions

The increased use of technology in one family-owned WA agribusiness is an example of change in the industry more broadly.

CHANGING FACE: Frank Galati (left) is using technology to make structural changes in dad Tony's business. **Photos:** Attila Csaszar



Matt McKenzie

matthew.mckenzie@businessnews.com.au

@Matt_Mckenzie_

5-PAGE FEATURE

TECHNOLOGY has always played a decisive role in the development of Western Australia's agriculture sector, whether in the form of machinery improvements, soil modification, crop enhancement or harvesting.

And it's no different in terms of how agriculture producers

have adapted the use of internet technology to their systems and supply chains.

One agribusiness embracing technological change is O'Connor-based grower and retailer Galati Group, ranked nine on the BNiQ agribusiness list.

Entrepreneur Tony Galati runs the business with son Frank, who is chief executive, and other son, Sebastian.

Frank Galati said the new generation had brought a fresh perspective on operations.

"I've come from a family business where you just get things done," he told *Business News*.

"Which we still do now.

"(But) as you get bigger, the minor things add up quite significantly, so you want to be able to see them more ... to make better management decisions."

That means the introduction

of more solid control systems to give better visibility on operations.

"We scan every single product that leaves our farm and know exactly when it leaves, where it's going, how much of its going where," Frank Galati said.

"We know exactly what's in the ground at any one moment, whereas before we'd have to drive around and see exactly what we had left."

Tony Galati said the previous system had worked, but agreed the big benefit of increased technology was that it cut the amount of time required.

"I'm more old fashioned because I'm out there in the field seeing what happens all the time; these guys have so many things to look at, they need info at their fingertips," he said.

+\$80/t **COST OF WA-PRODUCED GRAIN VERSUS BLACK SEA GRAIN** Source: Rabobank

Australian agribusinesses had to calculate everything carefully because they face such high costs, he said.

The business has spent a bit of capital on the changes in recent years, according to Frank Galati, although not a significant amount.

"These days, in agribusiness you have to be spot on, getting your yields right, with market fluctuations and prices going up and down," he said.

High labour costs compounded that problem, as did a frequent scarcity of workers.

"We're focusing on automation (to reduce labour costs) as

much as we can," Frank Galati said.

There is increasing competition in export markets, particularly from China, which he said had deflated prices in the business's key markets such as Indonesia, Malaysia and the Middle East.

Despite that pressure, Western Australian farms still had an advantage with product quality.

"Australian grown is highly sought after, we still get a premium for our product," Frank Galati said.

Technology is key for quality assurance, according to

“ We scan every single product that leaves our farm and know exactly when it leaves, where it’s going, how much of its going where

- Frank Galati

RaboBank senior grains and oilseeds analyst Dr Kalisch Gordon, who spoke in Perth at the Partners in Grain conference in March.

Blockchain technology, for example, could help guarantee the provenance of food sources, Dr Kalisch Gordon said.

Improved data collection through increased numbers of sensors and the internet of things would improve decision making, efficiency and cut costs, she said.

Lower costs may not be enough, however.

Australian grain, for example, is \$80 per tonne more expensive than that from the Black Sea, Dr Kalisch Gordon said.

“We need to operate in the space that delivers the additional value because we can’t compete on a cost-alone basis,” she said.

“There will be things that will be valued about food in the future that (farmers) may not necessarily see coming, or agree with, but that doesn’t mean there’s not a market.”

Fresh Produce Alliance co-owner Jennifer Franceschi was also acutely aware of the need to be more competitive.

Her business processes avocados in Manjimup, with key export markets including Singapore and Malaysia.

Ms Franceschi said automation and increased use of

technology was a key part of her business strategy.

The alliance has invested nearly \$6 million on high-pressure processing equipment, which enables Fresh Produce to extend product shelf life and use a wider range of farmgate produce.

Meating demand

Horticulture and grain are not the only two agribusiness segments increasing their uptake of technology.

Cottesloe-based livestock producer Harmony Agriculture and Food Company uses its electronic tags to collect data on livestock individually, and runs it through its data analysis program.

The business plans to set up a system to weigh cattle daily when feeding, using walkover weights, giving a much larger than usual set of data points to track performance.

Chief executive of lamb processor the Western Australian Meat Marketing Cooperative, Coll Macrury, told *Business News* that finding workers was a perennial problem at its two abattoirs.

There was only so much that could be done through automation, however, as some cuts were still too intricate for robots, Mr Macrury said.

“We’re having to bring in overseas labour regularly, but there’s (increasing) red tape with it,” Mr Macrury said.

“(Policy makers must) make sure that they don’t make foreign labour too difficult to get and keep.”

About 10 per cent of 400 workers at the cooperative’s Katanning plant were foreign, whereas up to 40 per cent could be at its Goulburn operation in NSW, he said.

Despite this, exports are still the cooperative’s main market, with most of the million head of sheep processed by Wammco in WA each year heading to North America, China and the Middle East.

Recent free trade agreements were a further positive.

“Over time the Chinese one will be important, definitely, for the volume we put in there, (it will) be an advantage,” Mr Macrury said.

A couple of capital investment projects under way would also present opportunities,



EXPANSION: Nick Paterniti says Odeum Farms has recently entered new markets.

such as a reorganisation of the processing rooms to enable greater value adding, he said.

Facilitation

Horticultural player Odeum Farms recently entered export markets as a means to diversify the business.

Export manager Nick Paterniti told *Business News* that Odeum started selling overseas about 18 months ago, with major lines including melons to Malaysia, Singapore and Dubai, brussel sprouts to South Korea and strawberries into South-East Asia.

He said the business had really benefited from facilitation programs run by industry bodies such as AusVeg and Vegetables WA.

“We’ve really leveraged the networking opportunities

(they’ve) created,” Mr Paterniti told *Business News*.

Benefits were higher prices and buyer diversification.

Other diversification moves included investing into a food services business that supplies mining camps and hospitality, Fresh Corps Farms.

Horticulture has faced challenges, however, particularly in biosecurity, with a recent listeria outbreak in east coast rockmelons.

Despite the distance from WA, it meant public perception issues overseas and had raised the possibility of bans, Mr Paterniti said.

Vegetables WA chief executive John Shannon said there

had also been a biosecurity incident last year with the discovery of the tomato potato psyllid in WA.

That reduced sales to the east coast, although the introduction of new washing protocols had alleviated the pressure somewhat.

Mr Shannon said the association had participated in a successful national export facilitation program linking growers with new markets.

A further move to improve competitiveness was participating in a national benchmarking process, where growers would collect data to compare wastage to other states.



SWITCH: Matt Cheney says Western Power will be moving towards a community battery storage model in regional areas. **Photo:** Cloe Veryard

Energising options to give farmers power

Increasing energy costs and ongoing reliability issues are two major challenges for farmers, with moves afoot to provide relief on both.

Matt McKenzie

matthew.mckenzie@businessnews.com.au
@Matt_Mckenzie_

TWO regulatory changes could have a profound impact on the price and reliability of power for agribusinesses under pressure from rising costs.

Changes to allow Western Power to provide solar and battery systems in communities, and a move to increase competition in energy retailing, could have major benefits in the bush.

Western Power is making steps towards a rollout of standalone power systems that improve reliability, but is hamstrung by rules that prevent it from installing generating capacity.

In March, Energy Minister Ben Wyatt announced a trial of standalone power systems, with 60 to be installed at fringe-of-grid locations across the Wheatbelt and South West by 2019.

Those systems include community batteries and solar panels, with the intention to replace more capital intensive and less reliable distribution lines.

Managed by state-owned power network operator Western Power, the trial would include four customers near Mullewa, four near Mount Barker and 24 near Wansborough.

There is already significant penetration of renewable power in agribusiness, with about 38 per cent of farmers having photovoltaic panels installed, according to

Western Power, while more than half were willing to trial being off grid.

Speaking at a recent conference hosted by WAFarmers, Western Power head of network transformation Matt Cheney said it followed a trial of six customers in the Great Southern region that wrapped up in 2017.

That saved an average 60 hours of outages a year for users, despite a significant flooding event.

"One of the big advantages for these systems is that they are significantly more reliable than the supply you can get from the network," Mr Cheney told *Business News*.

Other benefits included lower costs.

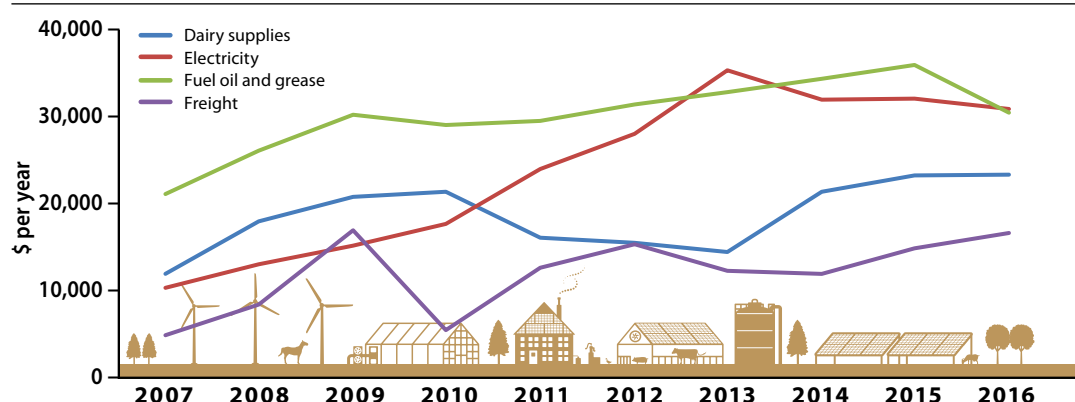
"We're now at the point where the systems, the costs have come down, and as we approach the need to do significant maintenance on those networks, the cost of putting these systems in is today lower than the cost of doing that work on the network," Mr Cheney said.

He said Western Power was working with the Public Utilities Office to loosen restrictions on the provider's capacity to proceed with the community batteries-solar panels program.

WAFarmers policy adviser Grady Powell said the association had been pushing for a transition towards standalone systems when the opportunities arose.

Surge - power costs grow

Source: ABARES



“Power is a big one, and as we’ve seen over consecutive government state budgets, water and power are only getting higher

– Grady Powell

"One of the hurdles that needs to be overcome (is) looking at the legislation and what might need to be done there," he said.

"Western Power is effectively generating and retailing the power so there needs to be some review of (the rules to allow that)."

Power prices were a further issue, Mr Powell said.

"As the margin in agriculture is becoming harder and harder, there

has to be a point where there has to be a ceiling in costs," he said.

"Power is a big one, and as we've seen over consecutive government state budgets, water and power are only getting higher."

Part of that, Mr Powell said, was driven by a move towards cost reflectivity, with the government currently reducing subsidies for generator Synergy.

Business News analysis compiled from Australian Bureau of Agricultural and Resource Economic Statistics data shows electricity costs for local dairy farmers have tripled during the past decade.

That exceeds the increase in fodder, fuel and dairy supply costs.

Mr Powell said dairy was the state's most energy dependent agricultural commodity.

One move that could potentially resolve this problem would be enabling more farmers to be

able to choose their electricity retailer.

Under existing rules, only business that use a specific amount of electricity in a year are able to select providers other than Synergy, with some retailers offering discounts of up to 20 per cent.

He said dairy farmers would be most keen for that opportunity, while vegetable growers would be in a similar position.

"For (dairy) particularly, having the ability to shop around and look for another retailer can only be a good thing," Mr Powell said.

But the process would need to be carefully managed so prices did not spike during the transition to a market-based system, and to ensure that regional users were still charged the same pricing as those in the metropolitan area.

That parity was maintained by the tariff equalisation contribution program, Mr Powell said.



\$5.5bn
REVENUE AT TOP FIVE
AGRIBUSINESSES

Lower prices hit revenue

DOWN: Revenue is lower at many of the state's biggest agribusinesses.

Matt McKenzie

matthew.mckenzie@businessnews.com.au
@Matt_Mckenzie_

WESTERN Australia's five biggest agribusinesses are earning about \$5.5 billion in revenue annually, according to the latest BNiQ Search Engine data, down from \$5.8 billion when the list was last published 18 months ago.

To put that number in context, the value of agricultural production in WA is about \$8.2 billion per year, according to the Department of Primary Industries and Regional Development.

With most WA agribusinesses unlisted, *Business News* has used a variety of sources to collate the data, including information filed with the Australian Securities and Investments Commission and Australian Taxation Office.

One business that has rapidly ascended the list in recent years is US-base **Bunge**.

BNiQ Search Engine research shows Bunge, which operates the Bunbury grain export terminal, is the state's third biggest agribusiness by revenue, with an income of \$529 million in the 2016 financial year.

The company's port operation was commissioned in 2014, with new receival facilities built at locations including Arthur River since.

A number of other businesses in the top five had a dip in revenue.

Grain handler **CBH** maintained its position at the top of the list, although revenue fell 6.5 per cent to be \$3.5 billion.

That was driven by lower grain prices, although a record throughput of 16.6 million tonnes partly offset that fall.

CBH appears unlikely to be challenged at the top of the list, with a \$750 million investment strategy under way to improve supply chain efficiency likely to boost tonnages.

The second biggest agribusiness was also a grain handler and trader, **Mitsui & Co**-backed **Plum Grove**.

Plum's revenue dipped about 12 per cent to \$527 million.

That figure includes sales from NSW.

"The season in WA is looking strong and is anticipated to produce good profitability sufficient to offset any negative impact from reduced volumes at the NSW operations," Plum said in its annual report.

Revenue at livestock trader **Wellard** dropped around 13 per

cent to be \$498 million as that business continued to wrestle with a tough live export market.

"Our key South-East Asian market remained under margin pressure as a result of record high cattle prices and a firm Australian dollar, which resulted in pricing that met buyer resistance," chairman David Griffiths said in the business's most recent annual report.

Other businesses in the cattle trade also experienced falls in revenue.

Consolidated Pastoral Company's revenue fell 6 per cent to \$154 million, **Heytesbury's** revenue was 19 per cent lower at \$51 million, while revenue at **International Livestock Exports** was down 26 per cent to \$185 million.

The story was no better among seafood players.

For **Austral Fisheries**, revenue dipped about 13 per cent to be \$120 million.

At **KB Foods**, the fall was about 21 per cent, to \$404 million, while revenue at **Geraldton Fishermen's Cooperative** was about 18 per cent lower.

One notable inclusion on this year's list is timber player **Quintis**, with revenue of about \$97 million to June 2017.

But the company's future is under a cloud after entering receivership in January.

That came after a year of dramatic problems for Quintis, which included governance issues and a short-selling operation by a global fund manager.

See list on next page.

Rank	Change since previous year	Company	Senior executive and title	Year est. in WA	Total staff in WA	Balance date	WA Revenue most recent financial year (\$)	Core business
1	—	CBH Group	Mr Jimmy Wilson Chief Executive	1922	1,100	30-Sep-17	3.48bn	Grain storage, handling and marketing co-operative
2	—	Plum Grove	Mr Andrew Young Executive Chair	2003	66	31-Oct-16	534.7m	Transporting, accumulating, storing, grading, handling, containerising, exporting and trading grain
3	↑	Bunge	Mr Christopher Tyson Regional Manager, WA	2017	WND	31-Dec-16	528.9m	Operation of a grain export terminal in Bunbury
4	↓	Wellard	Mr Mauro Balzarini Managing Director	1979	90	30-Jun-17	497.9m	Australia's largest livestock exporter; chilled meat exporter; grain grower and sheep breeder. Operates Beaufort River Meats abattoir
5	↓	KB Foods	Mr Matthew Kailis Group Chief Executive	2016	500	30-Jun-16	404.8m	Seafood production and processing, and food services
6	↓	Craig Mostyn Group	Mr Patrick Walsh Chief Executive	1923	470	30-Jun-16	403.5m	Pork, seafood and rendered products. Brands include Linley Valley Pork
7	↓	Geraldton Fishermen's Co-operative	Mr Wayne Hosking Chief Executive	1950	256	30-Jun-17	303.2m	Western rock lobster processing and marketing co-operative
8	—	WAMMCO	Mr Coll MacRury Chief Executive	1971	350	30-Jun-17	296.0m	Lamb processing and marketing co-operative
9	—	Harvey Beef	Mr Wayne Shaw General Manager	1919	427	30-Jun-17	284.8m	Operates an abattoir in Harvey, bought by Minderoo in 2014 for \$45m
10	—	Galati Group	Mr Tony Galati Chair	2011	1,142	30-Jun-17	258.5m	Galati Group grows and sells vegetables, fruit, eggs and cattle.
11	↓	International Livestock Export	Mr Michael Stanton Managing Director	1989	8	30-Jun-17	185.4m	Livestock export
12	↓	Harvey Fresh	Mr Paul Lorimer General Manager	1986	300	30-Jun-14	170.0m	Fruit juice and dairy products
13	↓	Consolidated Pastoral Company	Mr Henry Burke General manager, North	1992	100	31-Mar-17	154.6m	Owens and operates 20 cattle stations across northern Australia
14	—	Milne Agrigroup	Mr Graham Laitt Managing Director	1910	296	30-Jun-17	151.4m	Manufactures livestock feed, and owns meat and poultry farms. Brands include Plantagenet Pork and Mt Barker Chicken
15	—	Western Meat Packers	Mr Andrew Fuda Chief Executive	1983	360	30-Jun-17	150.0m	Abattoir in Margaret River, cold store and production facility in Osborne Park

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 7
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RANKED BY WA REVENUE MOST RECENT FINANCIAL YEAR

All information compiled using surveys, publicly available data and contact with industry sources. Other companies may be eligible for inclusion. If you believe your company is eligible, please email claire.byl@businessnews.com.au. WND: Would Not Disclose, NFP: Not For Publication, N/A: Not Applicable or Not Available.

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